

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2003-607

October 22, 2003

NORTHERN UTILITIES, INC.,
Proposed Cost of Gas Factor
for November 2003 – May 2004

ORDER

WELCH, Chairman; DIAMOND and REISHUS, Commissioners

I. SUMMARY

We approve Northern Utilities, Inc.'s (Northern) proposed Cost of Gas Factor (CGF) for the 2003 – 2004 Winter. We also approve an Environmental Response Cost Adjustment (ERCA) of \$0.0071 per Ccf. In addition, we approve the flow-back of \$800,000 of gas costs over-collected during the 2003 summer period in this winter period, as discussed further in this Order.

II. PROCEDURAL HISTORY

On August 15, 2003, pursuant to 35-A M.R.S.A. § 4703 and Chapter 430(2) of the Commission's Rules, Northern filed its proposed CGF for the Winter 2003 – 2004 gas usage period. Northern also proposed a change in the Environmental Recovery Cost (ERC) rate in accordance with the settlement approved in Docket No. 96-678. Northern also proposed to reduce its 2002 – 2003 Winter period under-collection by an amount equal to the estimated \$1,000,000 2003 Summer over-collection. The Commission issued a Notice of Proceeding to intervenors in prior CGF cases and by publication in newspapers of general circulation in Northern's service area.

The Office of the Public Advocate (OPA) intervened. To investigate the proposed CGF changes, the Advisory Staff issued data requests to the Company on its filing. A preliminary hearing was held on September 23, 2003, at which the Advisory Staff and the parties explored the issues raised by this filing. At that hearing, Northern indicated that it would make a revised CGF filing to incorporate an updated forecast of Winter period commodity costs, as necessary, to revise its reconciliation for the 2002 – 2003 Winter Period to correct Interruptible and Emergency Sales profits that had been included twice, and to provide a better estimate of the amount of the Summer 2003 over-collection included in the Winter 2003– 2004 reconciliation amount.

On September 26, 2003, the parties held a joint technical conference with Northern and the New Hampshire Public Utilities Commission Staff and Consumer Advocate to discuss the development of Northern's sales and demand day forecasts for the upcoming period.

On October 14, 2003, Northern filed its updated CGF. In it, Northern reduced the level of 2003 Summer over-collection that it proposed to flow back during the Winter period to better reflect its revised estimates. Northern also updated the reconciliation from the 2002 – 2003 Winter period to reflect the correction of the Interruptible profit. However, because commodity costs had not materially changed from when Northern made its filing on August 15, 2003, Northern did not change its estimates for the cost of gas for the Winter 2003 – 2004 period.

III. RECORD

The record in this proceeding includes all filings, data responses, transcripts, and any other materials provided in the proceeding.

IV. DISCUSSION

A. Overview of Proposed Rates

Northern proposes the following 2003 Winter Period CGF rates on a per hundred cubic feet (Ccf) basis, as updated in its October 14, 2003 filing, to become effective November 1, 2003:

Class	Rate	% Average Bill Change from Winter 2002-2003
Residential - Heat (R-2)	\$1.0627	8.2
Residential – Non-Heat (R-1)	1.0028	3.1
Small Commercial - Low Winter Use (G-50)	0.9010	3.4
Small Commercial - High Winter Use (G-40)	1.0987	9.4
Medium Commercial - Low Winter Use (G-51)	0.8992	3.7
Medium Commercial - High Winter Use (G-41)	1.0882	9.7
Large Commercial/Industrial – Low Winter Use (G-52)	0.7756	(7.8) ¹
Large Commercial/Industrial – High Winter Use (G-42)	1.0389	5.5

The proposed ERC rate of \$0.0071 per Ccf is calculated to include the environmental clean-up costs incurred during July 2002 through June 2003 and as well as recent insurance recoveries, in accordance with the settlement in Docket No. 96-678.

Finally, the revised rates filed on October 14, 2003, include the flow-back of a portion of the Summer 2003 over-collection as a reduction to the rate. The issues related to these proposed rates are discussed separately below.

¹ This class's rates decrease as it receives a larger percentage of the Summer period over-collection as it uses a larger percentage of gas in that period.

B. Issues1. Last Winter Period Under-Collection

Maine law allows for the recovery of prior period cost of gas under-collections, with interest, during the next corresponding seasonal period. 35-A M.R.S.A. § 4703 and Chapter 430 of the MPUC Rules. In its updated filing, Northern reported an under-collection from the last Winter period of approximately \$2,426,459 comprised of \$718 in demand costs and \$2,425,741 in commodity costs.² Northern's filing indicates that this under-collection results from higher-than-estimated costs of commodity gas. Northern's proposed recovery of the Winter 2002 – 2003 under-collection increases the proposed Winter 2003 – 2004 period cost of gas by approximately \$0.0792 per Ccf for all customer classes.

These adjustments are related to changes in market price or sales volumes, resulting largely from the effects of weather and market forces. Barring a finding of imprudence in sales forecasting or gas procurement actions, such costs are generally allowed in rates. Because we have found no evidence of imprudence related to these changes in gas costs, we allow them in the Winter 2003 – 2004 period CGF.

2. ERCA Adjustment

As allowed in Docket No. 96-786, Northern has calculated its ERCA rate for the Winter period to collect the portion of environmental clean-up costs incurred during the period July 2002 through June 2003 recoverable during this annual period. Northern calculated the ERCA rate by taking the recoverable charges divided by the estimated sales for the 12-month period ending October 31, 2004. It also credits the ERCA fund with 50% of any insurance recoveries it receives. We have checked Northern's calculations as well as the invoices supporting the new costs incurred and insurance recoveries received, and find them in compliance with our Order in Docket No. 96-786 and approve the adjustment.

3. Summer 2003 Over-Collection

During the later part of the Summer 2003 CGF period, the price of natural gas was lower than originally estimated when Northern made its Summer 2003 cost of gas filing. In addition, sales were higher than originally estimated. As a result, Northern experienced an over-collection of its cost of gas. Crediting this over-collection to the next summer CGF period would result in a substantial drop in the CGF rate during the Summer 2004, distorting the price signal. In order to avoid this price distortion and to mitigate the high past winter period under-recovery that must be recovered from ratepayers in this winter period, as well as to return the over-collection to its customers as quickly as

² The under-collection included in the update is greater than the amount included in the original filing because, while reviewing the calculation, Northern determined that it had double counted the interruptible profit included in the reconciliation. The revision corrects this error.

possible, Northern has proposed to flow-back the majority of the Summer 2003 CGF over-collection during this winter period. To do so, it proposes utilizing the same proportional class treatment that it did during the Summer 2003 when it included a portion of the Winter 2002-2003 under-collection in those rates. This methodology allocates a share of the over- or under-collection to each class in proportion to that class's contribution to the over- or under-collection in the prior seasonal period thereby balancing the equities.

Our staff has reported that the parties agree that it is appropriate to include a portion of the Summer 2003 over-collection in this Winter period even though over-collections would usually be returned in the matching time period. They offer two reasons for this. First, the rates calculated for the Summer 2003 period included a surcharge to recover a portion of the Winter 2002-2003 under-collection because the deficit from the winter period was so large. Thus, the summer over-collection of those winter 2002-2003 amounts may reasonably be flowed into the upcoming winter period. Moreover, by flowing back the over-collection during this Winter period, the change in the Summer 2004 rate will not be as substantial as it would be if the over-collection was treated in the typical manner. Crediting the summer over-collection to the upcoming winter period will reduce the rate component attributable to the prior period unrecovered balance. Consequently, by allowing the flow-back of a portion of the over-collection in the Winter period, the rate change for both this winter's and next summer's CGF periods will better reflect the then-current cost of gas. Second, the parties concluded that customers receiving service in the 2003 Summer period who are responsible for a portion of the over-collection are still likely to be customers of Northern and, with use of an agreed-upon method of calculating the flow-back, would bear an appropriate portion of the over-collection.

The main concern with the flow-back of summer costs in the winter period is that high summer use customers would subsidize winter high use customers if the flow back were credited as a uniform unit charge in the following winter period, because of seasonal usage differences. Accordingly, at the technical conference, the parties agreed that Northern should allocate the over-collection using the same method that it used to calculate the surcharge applied during the Summer 2003. We agree that this method allocates the over-collection to classes in an equitable manner.

Northern's proposal to flow-back only \$800,000, instead of \$1,000,000 as originally proposed, appears reasonable to reduce the risk that the Company's estimate of the 2003 Summer over-collection may prove too high. A substantial portion of the Summer 2003 period sales occur in the month of October and are not yet known.

4. Hedging

Northern has included for the first time costs related to its hedging plan. Northern calculated the estimated profit or loss based upon the most recent NYMEX futures for the hedges that it has purchased for upcoming winter period supply. These profits or losses will be reconciled to actual when Northern files its 2004 – 2005 Winter Cost of Gas filing.

Northern's proposal assigns the costs, including the profit and loss, of winter period supply hedges to the customers who will use the gas purchased through the hedges. This is reasonable and consistent with the intent of the approved hedging plan.

V. CONCLUSION

A combination of increases in projected gas prices and an under-collection in the prior Winter period, along with other adjustments described herein, results in the Winter 2003 – 2004 CGF rates stated above. Our Advisory Staff has reviewed the underlying reasons for these proposed rates and recommends their approval. Thus, we approve the current proposed rates.

In addition, for the reasons stated above, we allow Northern to reduce its rates for the Winter 2003 – 2004 CGF period with a portion of the Summer 2003 over-collection. We find this to be reasonable under the present circumstances where recent volatility in the gas markets has resulted in large over- and under-collections of gas costs, because it will move gas rates closer to market price in the next two CGF periods.

Accordingly, we

ORDER

1. That Northern Utilities, Inc.'s Forty-third Revised Sheet No. 20.1 constituting its Cost of Gas Factor for the period May 1, 2003, through October 31, 2003, filed on October 14, 2003, is approved for gas consumed on or after November 1, 2003; and
2. That Northern Utilities, Inc.'s Thirteenth Revised Sheet No. 34.3, the Environmental Response Cost Adjustment rate schedule filed on August 15, 2003, is approved and will become effective November 1, 2003.

Dated at Augusta, Maine, this 22nd day of October, 2003.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch

Diamond
Reishus

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.